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IN THE

Supreme Court of the United States

October Term, 1942

No.

PAPER CONTAINER MFG. COMPANY,
Petitioner,

vs.

DIXIE-VORTEX COMPANY,
Respondent.

PETITION OF PAPER CONTAINER MFG. COMPANY FOR A WRIT OF CERTIORARI TO THE CIRCUIT COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

To the Honorable the Chief Justice and Associate Justices of the Supreme Court of the United States:

Your petitioner, Paper Container Mfg. Company, respectfully prays for a writ of certiorari to the Circuit Court of Appeals for the Seventh Circuit to review the judgment of that Court entered on the 10th day of August, 1942 (petition for rehearing denied September 16, 1942). A transcript of the record in the case, including the proceedings in said Circuit Court of Appeals, is furnished herewith in accordance with the rules of this Court.

Summary and Short Statement of the Matter Involved.

1. Respondent, Dixie-Vortex Company, is the largest paper cup manufacturer in the United States.

2. Petitioner, Paper Container Mfg. Company, is a relatively small competitor of respondent in this field.

3. The importance of paper cups to the public has long been recognized because of their sanitary feature.

4. For the obvious purpose of driving petitioner out of the field because of the enormous cost that would be involved in defending itself, respondent, on February 11, 1939, filed the complaint in this cause charging petitioner with infringement of eleven patents,[1] later increased by three additional patents in a supplemental complaint,[2] thereby facing petitioner with the enormous expense incident to the extensive investigation necessary to answer and prepare defenses to a suit charging infringement of fourteen patents.

5. After petitioner had borne such expense, and had prepared its defenses to all fourteen patents, respondent withdrew ten of the patents from suit.

6. The trial was had on four patents.

7. The case emerged from the Circuit Court of Appeals with only one patent (Smith and Bild No. 2,203,510) sustained as valid, and infringed as to four of the seven claims thereof involved.[3] The present petition is concerned only with that one patent.

8. The Circuit Court of Appeals sustained the Smith and Bild patent as valid, not because it found invention dis-

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[1] Vol. I, p. 2.
[2] Vol. I, p. 85.
[3] Vol. IV, p. 1800.

closed thereby, or that the patent had validly been granted, but solely because it concluded that petitioner was estopped to attack the validity of the patent.[4] For this reason the Court refused to pass on the dispositive defenses of invalidity which were advanced by petitioner.

9. The material chronological facts with respect to the Smith and Bild patent from which the Circuit Court of Appeals spelled estoppel are as follows:

(a) On November 6, 1933, Mr. Leo Hulseman was president, managing director and a minority stockholder of a concern known as Paper Cup Corporation. On that day that corporation entered into an agreement with the inventors, Smith and Bild, whereby the corporation acquired exclusive rights under their invention for which an application for patent subsequently was to be filed and assigned to the corporation.[5] This agreement, cancelled a previous agreement between Hulseman and the inventors, under which Hulseman was vested with the exclusive right to use (but not to make or sell) a cup making machine to be built for him by Smith and Bild.[6]

(b) On December 13, 1934, Smith and Bild filed their application for patent, which, thereafter, was assigned to the Paper Cup Corporation.

(c) The application was directed to a machine for making paper cups. In general, the machine is one wherein cups are fabricated from a continuous strip of paper which is passed under a cutting knife so that uniform portions thereof (called blanks) are

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[4] Vol. IV, p. 1816.
[5] Vol. II, p. 508.
[6] Vol. II, p. 503.

successively cut therefrom, and are then formed into cups. The only feature of this machine with which we are here concerned is that during each cutting operation of the knife *the leading edge of the paper is held stationary.*[7] Consequently, the signal feature in the machine of the Smith and Bild application was an *intermittent* movement of the paper at that position, as distinguished from a *continuous* movement. *The Smith and Bild application made no disclosure of any kind or nature of a continuous movement of the paper at the cutting position.*

(d) The patent solicitor for Paper Cup Corporation, in the effort to obtain a broad scope for the claims of the Smith and Bild application, and to dominate, if possible, a *continuous* paper feeding machine (realizing even then the desirability of such a feature if it could be devised) presented a claim in the application which was specifically directed to the feature of feeding the paper *continuously.*[8] The Patent Office rejected this claim on the ground that the "continuous" feature was not disclosed by the application.[9] *This rejection was acquiesced in, and the claim was cancelled.*[10] No claim directed to this "continuous" feature was thereafter asserted in the application while the prosecution thereof was controlled by Paper Cup Corporation.

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[7] This was expressed in the specification of the application as filed (and in the patent as issued) in the following language (*e. g.*, Vol. III, p. 806, l. 66):

> "At the instant the cutting blade 68 engages the paper, the presser plate 73 likewise engages it, *holding that portion of the paper adjacent to the line of cut momentarily stationary.*"

[8] Claim 2, Vol. IV, p. 1666.

[9] Vol. IV, p. 1684.

[10] Vol. IV, p. 1685.

(e) On September 19, 1935, by some arrangement or agreement (as to which the record is entirely silent) the patent solicitor for respondent was given a power of attorney and took over the further prosecution of the Smith and Bild application in behalf of respondent.[11]

(f) In January, 1936, Mr. Hulseman severed his connection with the Paper Cup Corporation.[12]

(g) On April 9, 1936, the patent solicitor for *respondent* re-inserted claims in the Smith and Bild application directed to the feature of "continuous" paper feed despite the fact that the application disclosed no such thing.[13]

(h) In April, 1936, Mr. Hulseman organized petitioner corporation, with which he became associated as its president, managing director and the majority stockholder. Petitioner corporation engaged in the manufacture of paper cups in competition with respondent, employing a machine, the principal feature of which, in so far as we are here concerned with it, was that it employed a *continuous* movement of the paper past the cutting knife,[14] as distinguished from the *intermittent* movement thereof disclosed by the Smith and Bild application.[15]

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[11] Vol. IV, p. 1695; Vol. 1, pp. 289-300.
[12] Vol. I, pp. 123, 141, 151.
[13] Vol. IV, p. 1699.
[14] Vol. II, pp. 539, 563, 564.
[15] Petitioner's machine employs a spiral rotary knife, which thereby obviates the necessity of *intermittently* halting the paper strip at its cutting position in the machine. This enables the production of completed cups at the rate of 240 per minute (Vol. I, p. 146) as against from 90 to 100 per minute obtained in the *intermittent* machine —*an average increase of 200%*.

(i) The present suit on the first eleven patents was instituted on February 11, 1939.

(j) On June 7, 1939, after the institution of the present suit—and approximately 3½ years after Mr. Hulseman had severed his connection with the Paper Cup Corporation—the Smith and Bild application was assigned by that corporation to respondent.[16]

(k) On June 4, 1940 the Smith and Bild patent issued with claims therein directed to the feature of *continuously* advancing the paper—the precise feature of petitioner's machine which the Patent Office had held was not disclosed in the Smith and Bild application as filed, and which thereafter had been re-inserted in the application by respondent's attorney, in respondent's behalf, long after Mr. Hulseman had severed his connection with the Paper Cup Corporation.

(l) On September 12, 1940 the Smith and Bild patent was included in the present case by supplemental complaint.

(m) The Court of Appeals held that the "essential improvement" of the Smith and Bild patent had to do with the "*continuous* feeding or advance of a strip of paper" through a machine which would "successively sever cup blanks from the *continuously moving strip of paper*" [17]—the very feature which the Patent Office had held was *not* disclosed in the Smith and Bild application, and no claim for which, for that reason, was in the Smith and Bild application at the time respondent acquired the control of the prosecution thereof.

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[16] Vol. II, p. 536.
[17] Vol. IV, p. 1816.

10. It will be seen, in the light of the foregoing facts of the case, that the Court of Appeals held that petitioner was estopped to attack the validity of the Smith and Bild patent because Mr. Hulseman, who is the president, managing director and the majority stockholder of petitioner, years ago was the president, managing director and a *minority* stockholder of Paper Cup Corporation which owned the application for the patent, and which corporation, *three and one-half years after Mr. Hulseman had severed his connection with it*, assigned the application to respondent. And this despite the fact that the invention of the patent has been found by the Court of Appeals to comprise the very feature which the Patent Office had held was not disclosed by the application, and as to which feature no claim was or properly could have been present in the application at the time Mr. Hulseman severed his connection with Paper Cup Corporation.

11. Because the Court of Appeals has completely ignored the public interest involved in the adjudication of patent monopolies as valid, and has established a doctrine, which, if carried to its logical limits, would effectively form a means by which adjudication of validity could and undoubtedly would be obtained—to the detriment of the public right—for obviously invalid patents, this petition is presented.

Questions Presented.

On the foregoing statement of the facts of the case, the following questions are presented.

(1) In the light of the public interest, is there or should there be a dogmatic and inflexible rule of estoppel, which, despite all relevant facts and surrounding circumstances, forever prevents one from attacking the

validity of a patent because at one time, and for a short period of time, long prior to the acquisition of the patent by the one asserting it, he owned the title to the application for the patent?

(2) Is the Court relieved of its duty to the public to invalidate a patent, the invalidity of which is made manifest, merely because the defendant in the case attacking the patent's validity at one time owned the *application* for patent, prior to its issuance, and the one who is asserting the patent that issued thereon completely altered the claim of invention after acquisition of the application?

(3) If there is or should be such a dogmatic doctrine of estoppel, should it be applied, as it here has been applied, against a corporation because it was organized, managed, and the majority of its stock was owned by an individual who previously had been an officer, managing director and a *minority* stockholder of the corporate assignor, but had severed his connection with the corporate assignor three and one-half years prior to the assignment?

Reasons Relied Upon for a Grant of a Writ of Certiorari.

The discretionary power of this Court is invoked upon the following grounds:

1. The Court of Appeals for the Seventh Circuit, by its decision in this case has misconceived the true nature of public policy as to patents, and has unduly limited the function of the Federal Courts in carrying out that policy, and has thus decided an important question of Federal law in a way that is in obvious conflict with applicable decisions of this Court.

2. The Court of Appeals for the Seventh Circuit, in deciding that the owner of an application for patent is estopped to attack the validity of claims in the patent issued thereon, which claims are different in substance from those in the application at the time it was acquired by the one asserting the patent, has decided an important Federal question in a manner which is in direct conflict with the decisions of the Sixth Circuit Court of Appeals in *Westinghouse* v. *Formica*, 288 Fed. 330, and of the United States District Court for the Eastern District of New York in *Vogt Instant Freezers* v. *New York Eskimo Pie Corp.*, 59 F. (2d) 99.

3. The Court of Appeals for the Seventh Circuit, in deciding that one is prevented from attacking the validity of a patent because he owned the title thereto at one time, and for a short period of time, long prior to the acquisition of the patent by the one asserting it, has decided an important question of Federal law in a manner which is in derogation of the public interest and contrary to public policy.

4. The Court of Appeals for the Seventh Circuit, in holding that the doctrine of estoppel is applicable to petitioner merely because its president, managing director and majority stockholder, at one time was the president, managing director and a *minority* stockholder of another corporation which owned the patent rights here asserted, and which assigned said patent rights to respondent 3½ years after the individual had severed his connections therewith, has extended the doctrine of equitable estoppel to a wholly illogical extreme which will have the inevitable effect of increasing the instances where Federal Courts will believe themselves deprived of the power or relieved of the public duty of passing upon the validity of asserted patent monopolies. The importance of this question, from the viewpoint

of public policy, requires the prompt scrutiny and sanction of this Court before it is allowed to become established as a precedent.

WHEREFORE your petitioner respectfully prays that a writ of certiorari issue out of and under the seal of this Court, directed to the United States Court of Appeals for the Seventh Judicial Circuit, commanding said Court to certify and send to this Court, on a date to be designated, a full transcript of the record and full proceedings had in this case, to the end that this case may be reviewed and determined by this Court as to the questions presented hereby, as well as to the questions of validity of the patent involved, and the infringement thereof, and that the judgment of the Court of Appeals be reversed in so far as it found validity for the Smith and Bild Patent No. 2,203,510, and infringement thereof; and that petitioner may be granted such other and further relief as may seem proper.

Respectfully submitted,

SAMUEL E. DARBY, JR.,
Counsel for Petitioner.

F. ALLAN MINNE,
Of Counsel.

Dated: New York, New York,
October 28, 1942.

BRIEF IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI.

Opinions of the Courts Below.

The opinion of the District Court is reported in 43 F. Supp. 512, and is reproduced beginning at page 742 of Vol. II of the Record.

The opinion of the Court of Appeals for the Seventh Circuit has not yet been reported, but will be found beginning at page 1800 of Vol. IV of the record.

Jurisdiction.

The grounds for jurisdiction are:

1. The date of the judgment to be reviewed is August 10, 1942; petition for rehearing denied September 16, 1942.

2. The judgment was rendered in a civil action brought under the patent statutes to determine the issues of validity and infringement of Letters Patent of invention.

3. The statute under which jurisdiction is invoked is 240 (a) of the Judicial Code, 28 U. S. C. A. 347, as amended by the Act of February 13, 1925.

4. Cases believed to sustain the jurisdiction are:

Carbice Corp. v. *American Corp.*, 283 U. S. 27;
Morton Salt Co. v. *Suppiger Co.*, 314 U. S. 488;
Milcor Steel Co. v. *George A. Fuller Co.*, 315 U. S. ___; 86 L. Ed. 897.

Statement.

The facts are suffciently stated in the petition.

Specification of Errors.

The errors which petitioner will urge if the petition for certiorari is granted, are that the Circuit Court of Appeals for the Seventh Circuit erred:

1. in sustaining the Smith and Bild Patent No. 2,203,510 as valid and infringed;

2. in holding that petitioner is estopped to attack the validity of the Smith and Bild Patent No. 2,203,510;

3. in holding that the doctrine of estoppel is applicable to petitioner in the light of the specific facts of this case;

4. in failing to hold the Smith and Bild Patent No. 2,203,510 to be invalid because of want of invention and illegal alteration of claims;

5. in failing to hold non-infringement of the patent because of file wrapper estoppel.

Summary of Argument.

The points of argument follow the reasons relied upon for the grant of a writ of certiorari, and are stated on pages 8 and 9 of the petition as well as in the index hereto. For the sake of brevity they are omitted at this point.

ARGUMENT.

POINT I.

Public policy as to patents.

We assert that the Court of Appeals for the Seventh Circuit has misconceived the true nature of public policy as to patents, and has unduly limited the function of the Federal Courts in carrying out that policy.

It is, of course, elementary that there is a vast public interest in the adjudication of the validity of patent monopolies. As this Court has frequently stated, it is a Court's duty to the public to scrutinize each patent monopoly as to its validity before its judicial sanction. The reason for this is obvious. The patent statutes were framed to create an inducement and establish a reward for "invention" which would promote the useful arts and sciences and be of benefit to mankind. As opposed to this is the long recognized public benefit of open competition in industry. As this Court stated years ago in *Pope Manufacturing Co.* v. *Gormully,* 144 U. S. 224, 234:

> "It is as important to the public that competition should not be repressed by worthless patents as that the patentee of a really valuable invention should be protected in his monopoly." *

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* Under this instruction the Third Circuit Court of Appeals said, in *Standard Water Systems, Inc.* v. *Griscom-Russell Co.,* 278 F. 703, 707:

> "As before said, regardless of the principle that an assignee of a patent cannot deny invention, it is the duty of the Court to determine lack of invention, where apparent, in order that the public interests may be guarded."

In the face of the public interest in the adjudication of validity for patent rights, and the duty to the public imposed thereby upon the Federal Courts it would seem to be anomalous that any inflexible doctrine or dogma could exist or be permitted to stand which would deprive a Court of its power to determine the validity of a patent grant, properly before it, or relieve it of the duty to do so.

Here, the Court of Appeals has sustained the Smith and Bild patent as valid, with all of the inevitable consequences that the dignity of such adjudication carries with it. The Court did this in the belief that, despite the public interest and its duty to the public because thereof, an inflexible and dogmatic doctrine of estoppel tied its hands and prevented its judicial consideration of manifest reasons for invalidating the patent.

Having in mind that estoppels have frequently been characterized as "odious" and as forbidding one to "speak the truth", we advance as an initial proposition that no such doctrine should stand in opposition to the public interest and the duty imposed upon the judiciary as a result.† In support of this proposition the Court of Appeals for the Sixth Circuit, in a case in which the patent owner endeavored to restrict the power of the Court by an asserted estoppel against the defendant, most aptly said (*Kellogg Switchboard & Supply Co.* v. *Michigan Bell Telephone Co.*, 99 F. (2d) 203, page 205):

> "The public is always a third party to an infringement suit, and its rights may not be waived by the conduct of alleged infringers, however repugnant to their later contentions."

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† *Westinghouse* v. *Formica Insulation Co.*, 288 Fed. 330, C. C. A. 6; *Stubnitz Greene Spring Corp.* v. *Fort Pitt Bedding Co.*, 110 F. (2d) 192, C. C. A. 6.

This Court currently has recognized the importance of the question here presented because it granted certiorari in the case of *Solar Electric Co.* v. *Jefferson Electric Co.*, No. 45, October Term, 1942, wherein the same question is presented in a case involving an asserted estoppel against a *licensee* under a patent, as distinguished from an alleged *assignor* thereof as in the present case.

We do not question the propriety of the doctrine of estoppel which would preclude one who sells *title* to a patent grant from thereafter questioning the *title* he has conveyed. That has long been the established law with respect to the transfer of land, which is the most frequently utilized analogue when considering patent rights. But we do distinguish between estoppel to question *title*—a subject in which the public has no interest whatever—and an estoppel to question the *validity of a patent*—in which the public has a most important and controlling interest.

As is well know, a patent is merely presumptively valid, and the presumption may be overcome in any attempt to enforce the patent. The usual assignment of a patent carries with it no representation or guarantee as to its validity. The patent grant, on its face, pursuant to Section 4884 R. S., endows the patentee with the exclusive right to make, use or vend the thing patented—*provided, that by proper adjudication, the Federal Courts, asked to enforce the patent, determine that it has been validly granted for an "invention" over what preceded it in the art.* Inasmuch as this *proviso* always exists with respect to every patent, there seems to be no logical reason—and certainly no proper legal one—why one who, at some time during its life has owned the patent, is placed in a position different from that of any other member of the public, and is forever estopped from enforcing the *proviso* which is inherent to the grant.

On the other hand, the reasons why no such estoppel should exist are impelling. Adverting to the facts of the present case, the invention of the Smith and Bild *application* for patent comprised a specific thing. Preliminary proceedings in the Patent Office with respect to the application had progressed to a stage where the limits of the invention proper to be monopolized by the inventors had been fairly well established. Specifically, all presumed right to a patent for *continuous* paper feed had been affirmatively disclaimed. At that stage the control of the further prosecution of the application was acquired by respondent. Under its control respondent secured the issuance of the patent with the four claims sustained by the Court of Appeals below for an invention entirely different from that for which a patent was sought when it acquired control of the application. Specifically, this was the precise feature which theretofore had been *disclaimed* as constituting the invention. On this statement of the facts, to hold that the first owner of the application is estopped to deny the validity of the claims thus obtained for subject matter foreign to that of which the initial owner was possessed, and the presumed right to which, moreover, had been deliberately and effectively disclaimed, is to sanction a fraud upon the *public* by a doctrine which was created to prevent a fraud upon *a private person.*

Thus, and still adhering to the facts of the present case, the consequence of what we believe to be an erroneous interpretation and application of the doctrine of estoppel by the Court of Appeals below is to sustain as valid a patent which manifestly is invalid, and at the same time deprive the public of petitioner's competition by means of an invention subsequently made, which, due to its enormously increased production capabilities, inevitably would reduce the cost of an extensively used article of commerce. *Public* benefit has

always been recognized as the purpose of the patent statutes; * however, this purpose is effectively defeated by the decision of the Court of Appeals below.

It is believed that all of the foregoing considerations warrant a review of the case by this Court.

POINT II.

The doctrine of estoppel to attack validity of a patent right by one who at some time has owned it, if it properly exists at all, is inapplicable to one who conveys merely an application for patent.

This question has not been passed upon by this Court.

It will be remembered that estoppel was found and applied by the Court of Appeals below because Hulseman, an officer, managing director and the majority stockholder of petitioner, had previously been an officer, managing director and a minority stockholder of Paper Cup Corporation which owned the *application* for the Smith and Bild patent. And this despite the fact that Hulseman had severed his connection with the Paper Cup Corporation 3½ years prior to the date that that corporation assigned the application to respondent. As has frequently been stated (notably by the Circuit Court of Appeals for the Sixth Circuit in *Westinghouse* v. *Formica*, 288 F. 330), the rights represented by an *application* for patent are inchoate, and the application consists of no more than a suggestion of what those rights might ultimately be determined to be. Obviously, one owning such inchoate rights might sell them in the belief that at the time of sale they constituted a specific invention, and find, years later, that the purchaser, by process of prosecu-

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* *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U. S. 502.

tion in the Patent Office, has changed those rights into and defined them as something which was no part of the specific invention sold, or which he could not sell because it was in the public realm. Obviously, under such circumstances the seller should not be estopped to attack either the propriety or the validity of such altered and different claim for invention.

Such was the reasoning which induced the Court of Appeals for the Sixth Circuit to pass squarely on this question in *Westinghouse* v. *Formica Insulation Co.*, 288 F. 330, and to hold that no doctrine of estoppel is applicable to the owner of an *application* for patent.* To the same effect is the unequivocal decision of the United States District Court for the Eastern District of New York in *Vogt Instant Freezers* v. *New York Eskimo Pie Corp.*, 59 F. (2d) 99 (affirmed on other grounds, 69 F. (2d) 84, C. C. A. 2).

Therefore, there is direct and irreconcilable conflict between the decision of the Court of Appeals for the Seventh Circuit in the present case, and the decisions of the Court of Appeals for the Sixth Circuit and the District Court of New York, on this important question, which, because of the great public interest involved, should be resolved by this Court.

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* This Court affirmed this case (*Westinghouse* v. *Formica*, 277 U. S. 342) upon other grounds, and expressly refrained from passing on this question.

POINT III.

The doctrine of estoppel to attack validity of a patent, if it properly exists at all, is inapplicable to one merely because, at some time, he had merely casual and temporary ownership.

As it has been applied by the Court of Appeals in this case, the doctrine of estoppel to attack the validity of a patent grant is applicable to anyone who may have been possessed of title thereto at any time during the life of the patent, even though such ownership was casual and temporary. Obviously, such an extension of the doctrine of estoppel is illogical in the extreme, and would go a long way towards discouraging the sale of patent rights for commercial exploitation—an ultimate goal of the inventor (cf. the concurring opinion of Judge FRANK in *Picard* v. *United Aircraft Corp.*, 128 F. (2d) 632).

It is believed that if the doctrine is properly applicable at all (and this is vigorously denied) it necessarily must be limited to the immediate seller with respect to the immediate purchaser. Because of the obvious consequences of an extension of the doctrine in the manner in which the Court of Appeals below has extended it this Court is urged to pass upon the matter.

POINT IV.

Under no circumstances is the doctrine of estoppel against a corporation applicable to a subsequently created corporation or to an individual connected with the first corporation, especially when the act allegedly creating the estoppel occurred 3½ years after the individual severed his connection with the first corporation.

As shown by the facts of the case (*ante*, pp. 3-6), the estoppel found and held by the Court of Appeals below to prevent petitioner from questioning the validity of the Smith and Bild patent was predicated upon the fact that the individual, Leo Hulseman, was an officer, the managing director and the majority stockholder of the petitioner corporation, and the same Leo Hulseman had been an officer, the managing director and a *minority* stockholder of a prior corporation (Paper Cup Corporation) at the time it owned the Smith and Bild application for patent. It is submitted that the holding, under such circumstances, that petitioner corporation was estopped to attack the validity of the Smith and Bild patent was wholly without legal justification.

Even under the most liberal extension of the principles which flow from the theory of *alter ego*, the connection between petitioner corporation and the Paper Cup Corporation, through the medium of the individual, Leo Hulseman, is so tenuous as to afford no legal support for the conclusion of the Court of Appeals. And this is especially so when it is remembered that Hulseman severed his connection with Paper Cup Corporation 3½ years before that corporation assigned the Smith and Bild application to respondent—the act which, assertedly, created the estoppel.

This Court had before it facts almost identical, in this respect, with those here involved, in the case of *Westinghouse* v. *Formica,* 277 U. S. 342, but expressly refrained from deciding the issue presented thereby. It is believed that this Court should do so in the present case.

Conclusion.

Wherefore, petitioner earnestly prays that the petition for writ of certiorari be granted; the case be reviewed; and the decree of the Court of Appeals for the Seventh Circuit finding validity for and infringement of the Smith and Bild Patent No. 2,203,510 be reversed.

Respectfully submitted,

SAMUEL E. DARBY, JR.,
Counsel for Petitioner.

F. ALLAN MINNE,
Of Counsel.

Dated: New York, N. Y.,
October 28, 1942.

(22)

FILED
NOV 23 1942
CHARLES ELMORE CROPLEY
CLERK

IN THE

Supreme Court of the United States

October Term, 1942

No. 505

PAPER CONTAINER MFG. COMPANY,
Petitioner,

vs.

DIXIE-VORTEX COMPANY,
Respondent.

RESPONDENT'S REPLY.

CHARLES W. HILLS,
Counsel for Respondent.

ALEXANDER C. MABEE,
Of Counsel.

THE TWENTIETH CENTURY PRESS, INC., CHICAGO

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IN THE

Supreme Court of the United States

October Term, 1942

No.

PAPER CONTAINER MFG. COMPANY,
Petitioner,

vs.

DIXIE-VORTEX COMPANY,
Respondent.

RESPONDENT'S REPLY.

Petitioner's statement of the facts on pages 2 to 7, inclusive, of the petition is inaccurate and omits certain important facts which should be considered.

Supplement to Facts Stated in Petition.

Petitioner's proposition numbered 4 on page 2 of its petition fails to point out that petitioner was endeavoring to maintain secrecy with respect to its operations, and that it was not until after the lower court permitted respondent to inspect petitioner's machines and operations (Rec. Vol. I, p. 22) that respondent was able to become fully advised with respect to petitioner's activities. When petitioner became fully convinced that it could no longer conceal its machines and methods, it stipulated the construction and operation of its machines (Plaintiff's Exhibit 35, Rec. Vol. II, p. 539, Introduced, Vol. I, p. 173),

and then respondent limited its charges of infringement (Rec. Vol. I, p. 99) to the four patents which were held valid and infringed by the lower court (Rec. Vol. II, p. 760).

Hulseman Not a Minority Stockholder.

On page 3 of its petition, petitioner incorrectly states Mr. Leo J. Hulseman's connection with Paper Cup Corporation. Mr. Hulseman was not a "*minority*" stockholder. Mr. Hulseman's connection with Paper Cup Corporation is quite fully set forth in his own testimony on pages 124 and 125 of Volume I of the record.

He there stated that he owned, outright, 49% of the capital stock of Paper Cup Corporation and that he caused two shares to be issued to his attorney, thus giving Mr. Hulseman and his attorney 51% of the capital stock. On pages 124 and 125 of the record (Vol. I), he testified that, before he formed Paper Cup Corporation, he had received an *exclusive license* from Smith and Bild covering the invention, and assigned that *exclusive license* agreement to Paper Cup Corporation in consideration for his capital stock. He testified that he paid *no cash* for that capital stock, and he turned in to the corporation, in addition to the license, a Smith and Bild machine subject to an indebtedness of $566.50.

On page 125 (Vol. I) he also testified that, after the corporation was formed, he made an arrangement with Smith and Bild to assign that invention to the corporation.

Beginning on page 134 of Volume I of the record, Mr. Hulseman identified his original exclusive license agreement with Smith and Bild; the assignment which Mr. Hulseman made to Paper Cup Corporation for his capital stock in that corporation; subsequent contracts between

Smith and Bild and Paper Cup Corporation, and the assignment of the invention and application for patent from Smith and Bild to the corporation.

The invention covered by those various documents is the invention which is covered by the Smith and Bild patent No. 2,203,510 which is here in controversy (Rec. p. 134, Vol. I).

Mr. Hulseman's original exclusive license agreement with Smith and Bild, which he assigned to the corporation (with the Smith and Bild machine) for his stock is in evidence as Plaintiff's Exhibit No. 14, introduced on page 134, Vol. I, of the record and is to be found at page 503, Vol. II of the record.

Mr. Hulseman's contract with Paper Cup Corporation, transferring that license and that machine to the corporation in consideration for his shares of capital stock of the corporation is Plaintiff's Exhibit 15, introduced on page 136, Vol. I, and the exhibit is to be found at page 502, Vol. II, of the record.

The assignment of the invention and patent application is Plaintiff's Exhibit 19, introduced at page 138, Vol. I, of the record and is to be found at page 521, Vol. II of the record.

Hulseman Covenanted to Defend.

In Mr. Hulseman's contract with Paper Cup Corporation, transferring the Smith and Bild exclusive license and machine to the corporation in consideration of the issuance to him of his capital stock in the corporation, Mr. Hulseman (Rec. 507, Vol. II), agreed that:

> "said Hulseman does, for himself, his heirs, executors, administrators and assigns, covenant to and with said Paper Cup Corporation to *warrant and de-*

fend said property to the said Paper Cup Corporation, its successors and *assigns*, against the lawful claims and demands of any and every person, firm or corporation, whom or whatsoever." (Emphasis ours.)

Mr. Hulseman is now trying to destroy the very "property" which he there *covenanted* to *defend*. The exclusive rights which he acquired from Smith and Bild, and then assigned to Paper Cup Corporation, merged into the greater rights secured by Paper Cup Corporation under that assignment. There never was a time when Paper Cup Corporation did not own those exclusive rights, until it conveyed them to respondent. The title to the Smith and Bild invention, application and patent included the exclusive license rights that Hulseman had conveyed to the corporation.

Mr. Hulseman testified that *he* handled all of those subsequent contracts and his signature appears upon all of them. He also, for the corporation, handled the matter of securing the assignment (Rec. 136, Vol. I).

Hulseman Directed and Controlled Paper Cup Corporation.

On page 138, Vol. I, Mr. Hulseman testified that he became the first president of Paper Cup Corporation; remained president of it until December 31st, 1935, or thereabouts; that he had charge of its operations; was a director, and was the *sole managing officer* of it (See findings of fact No. 40, Rec. Vol. II, p. 757).

The foregoing record facts make Mr. Hulseman *far more* than a mere "minority" stockholder, as petitioner would have this Court believe.

Furthermore, he had obligated himself by a solemn written covenant to *defend*,—not to *destroy*,—this "property".

The foregoing facts are *not* set forth in the petition.

Paper Cup Corporation assigned this invention, the Smith and Bild application, and the patent to issue thereon to respondent on July 7, 1939 (Rec. 536, Vol. II, introduced p. 172, Vol. I). This was after Mr. Hulseman severed his connection with Paper Cup Corporation. However, Mr. Hulseman's written obligation to "warrant and defend" this "property", in express terms, extended to *assignees* of the Paper Cup Corporation, as above pointed out (Rec. 507, Vol. II, lines 34 to 40).

Continuous Feed Claims.

Petitioner, on pages 4, 5, 6 and 7 of its petition, tries to make it appear that claims covering the feature of *continuously advancing the strip* of paper, were not present in the Smith and Bild application, when Paper Cup Corporation turned over the prosecution of the application to the present firm of attorneys who represent respondent. On page 5, of its petition, that date is given as September 19, 1935. Mr. Hulseman was then president of Paper Cup Corporation and, so far as the record shows, was in full charge and control of its activities (Rec. 138, Vol. I). If Mr. Hulseman had nothing to do with that transfer of the prosecution of the Smith and Bild application, petitioner's counsel could have asked him about it. They did not ask him. The fact is that he had a lot to do with it. It was officially done by him.

But, regardless of the foregoing facts, petitioner is WHOLLY in error when it says that no claims to the "con-

tinuous feed" were in the application when that transfer of the prosecution of the application took place. We shall later point out that it makes no difference whether such claims were or were not in the application, but the record shows that they were not only *in the application* at that time but that *one* of those very claims issued in the patent as claim 7.

In discussing this phase of the petition, we shall refer to Volume IV of the record which contains the file wrapper of the Smith and Bild application which resulted in the issue of the Smith and Bild patent here in controversy.

The power of attorney to new counsel appears on page 1695 of Vol. IV of the record. Prosecution of the application prior to that date was handled by Cox & Moore. Subsequent to that date (September 19, 1935) it was handled by the Firm of Charles W. Hills.

In the first action, dated March 8, 1935 (Rec. 1683, Vol. IV), the claims which made reference to the continuous movement of the strip of paper, were rejected on the Searle patent No. 1,375,937. The Searle patent is in evidence in this case and appears at page 1148, Vol. III, of the record. Searle makes *no* disclosure of "continuous feeding of a strip of paper". The rejection must, therefore, have been based upon other grounds of rejection.

On page 1684 of Volume IV, original Claim 2 was rejected because the claim said "uninterrupted continuous movement", and the Examiner pointed out that "the portion of the paper adjacent the line of cut (is) momentarily stationary".

Claim 2 was cancelled in the amendment filed by Cox & Moore on September 9, 1935. But, in that same amend-

ment, Cox & Moore inserted 14 new claims. One of those new claims, claim 34 (Rec. 1690, Vol. IV) states,

"successively severing the strip *as it travels,* etc."

That claim, which became claim 7 of the patent, carries the idea of "continuous movement" of the strip even though it does not use the specific words "continuous movement." Within a few days *after* that amendment was filed, Paper Cup Corporation, *while Mr. Hulseman was still president* and dominated and controlled its activities, turned over the prosecution of the application to the Firm of Charles W. Hills (Rec. 1695, Vol. IV).

Later, during the prosecution of the application before the *same* Examiner in the Patent Office (Rec. 1750, Vol. IV) the Examiner stated:

> "Claim 57 is further inaccurate in that applicant's feed rolls 14, 16 do not intermittently move the web as claimed. These rolls *continuously* move the web." (Emphasis was Examiner's.)

Again, at the top of page 1751, Volume IV of the record, the Examiner, in rejecting claim 55, which issued as claim 15 of the Smith and Bild patent, said:

> "Applicant's feed rolls continuously move the web; they do not intermittently move it as recited in this claim."

This claim was allowed after cancellation of the word "intermittently", and became claim 15 of the patent.

The Examiner thus found it to be a fact that, in the Smith & Bild machine, the *web* moves "continuously." The lower Court, by inference, found that same thing to be a fact when it found the Smith & Bild claims valid and infringed, and the Circuit Court of Appeals found it to

be a fact. We therefore have *three* concurrent *findings of fact* on that question.

It is impossible not to have a continuous movement of the web of paper in the Smith & Bild machines. The feed rollers 14 and 16 are geared together and *move* "continuously". The web of paper is gripped firmly between those feed rollers and, since the rollers move "continuously", the web *must* also move "continuously". The Circuit Court of Appeals, on page 1817, Vol. IV, of the record analyzed petitioner's contention which it is pressing here, and said:

> "We think this distinction is more imaginary than real."

and

> "The testimony discloses that the halting effect, if any, occasioned by plaintiff's cutting mechanism, is so insignificant as to have little, if any, effect upon the paper's advancement."

Petitioner, on page 7 of the petition, incorrectly states that, as to that feature,

> "no claim was or properly could have been present in the application at the time Mr. Hulseman severed his connections with Paper Cup Corporation."

That statement is definitely incorrect. Such a claim was not only *proper* at that time but such a claim *was then in the case.* From the day the application was filed until it issued into the patent in suit, *there never was a time when the application did not have a claim in it which covered the continuous feed feature.*

The petitioner, on page 7 of the petition, contends that this is a case in which "public interest" was ignored. "Public interest" does not require that Mr. Hulseman be

permitted to destroy the very thing which he *covenanted* to defend.

Petition Is Based Solely on Estoppel.

The estoppel which was found to exist in this case by both lower courts, was based upon *all* of the facts in the record, which create as clear a case of estoppel as was ever presented to a court. Even if Mr. Hulseman had not, in fact, *covenanted* to *defend* this "property", the other facts in the record fully establish the estoppel.

It is *only* on this ground of estoppel that the petition for Certiorari is based.

No Public Interest.

"Public interest" is a poor excuse for Mr. Hulseman to urge in this case. "Public interest" requires that Mr. Hulseman's conduct, shown by the record in this case, be condemned rather than rewarded.

Hulseman and Petitioner Are One.

Petitioner admits (Brief p. 17) that the petitioner corporation was organized by Mr. Hulseman; that he manages the petitioner corporation; and owns a majority of its capital stock.

The record shows that he is president of petitioner corporation; that he formed this corporation while he was working for respondent (Rec. 120, Vol. I; Findings of Fact, Nos. 38 and 44, Vol. II, pp. 757, 758); that when he employed Mr. Brewer to design petitioner's machines, he explained the "continuous feed" principle to Mr. Brewer while the Smith & Bild application was still pending in

the Patent Office (Rec. 141, Vol. I), and advised Mr. Brewer quite fully about the Amberg machine, which was just an improvement upon the Smith & Bild, and which incorporates the structure defined by the Smith & Bild claims now involved in this case.

It is not to the "public interest" to have the Courts approve Mr. Hulseman's conduct. Both the District Court and the Court of Appeals disapproved of that conduct in no uncertain terms.

ARGUMENT.

Petitioner has based its petition for certiorari solely upon the estoppel question. Petitioner has stated *no* grounds for securing certiorari in an ordinary patent case in which no question of estoppel is involved.

In its argument, petitioner appears to assume that "public policy" requires that patents be held invalid. We know of no such "public policy".

Controversy Is Private—Not Public.

This is a case in which the controversy is one between respondent and petitioner,—which is really Mr. Hulseman. The District Court found that "petitioner is a mere incorporation of Leo J. Hulseman" in Finding of Fact, No. 44 (Rec. 758, Vol. II). The Court of Appeals concurred in this finding of fact.

The estoppel which was found in this case is therefore applicable only to Mr. Hulseman and to petitioner.

Since the estoppel applies only to Mr. Hulseman and to petitioner, there is no "public interest", with respect to patents, in the case presented by the petition for certiorari, because the petition is based *solely* upon the estoppel question.

Petitioner's statement of facts with respect to the estoppel is so inaccurate and so incomplete that it does not fairly present the facts. Estoppels are based upon facts. We have presented the record facts upon which the District Court and the Circuit Court of Appeals based their concurrent findings of estoppel in this case.

In *General Talking Pictures Corp.* v. *Western Electric Co.*, 304 U. S. 175, this Court had before it a case in which

petitioner endeavored to have this Court review a question of estoppel. This Court said, on page 178:

> "Whether respondents acquiesced in the infringement and are stopped depends upon the facts. Granting of the writ would not be warranted merely to review the evidence or inferences drawn from it. *Southern Power Co.* v. *N. C. Public Service Co.*, 263 U. S. 508. *United States* v. *Johnston*, 268 U. S. 220, 227. Moreover, the decision on that point rests on concurrent findings. They are not to be disturbed unless plainly without support. *United States* v. *Chemical Foundation*, 272 U. S. 1, 14. *United States* v. *McGowan*, 290 U. S. 592. *Alabama Power Co.* v. *Ickes*, 302 U. S. 464."

We have not been able, without unduly enlarging this reply, to present *all* of the record facts which support those concurrent findings of both of the courts which passed upon this issue in this case. We have, however, presented enough of the record facts to show that no error was committed.

There was no miscarriage of justice in this case. Petitioner cannot cite even one instance where facts, such as are present in this case, were held insufficient to create an estoppel.

Both the District Court and the Circuit Court of Appeals correctly applied the law relating to estoppels to the facts in the case at bar.

Estoppel is Only Question Presented.

It should be kept in mind that petitioner has based its petition *solely* upon the ground that the decision of the Circuit Court of Appeals with respect to *estoppel* should be reviewed. That is evident from the fact that, in paragraph 8, which starts on page 2 of the petition, the petitioner states:

> "The Circuit Court of Appeals sustained the Smith and Bild patent as valid, not because it found invention disclosed thereby, or that the patent had been validly granted, but *solely because it concluded that petitioner was estopped to attack the validity of the patent.*" (Emphasis ours.)

The question of *estoppel* is therefore the *sole* question presented by this petition. That question is therefore one which is of interest *solely* between respondent and Mr. Hulseman and his privies, of which the petitioner is one. The *public* is not interested, one way or the other, in whether Mr. Hulseman and his privies are estopped, by deed or by conduct, to deny the validity of the Smith and Bild patent.

Petitioner's arguments based upon an alleged "public interest" are not pertinent in this case.

Estoppel Here Found Has Broader Basis Than Merely Estoppel of a Licensee.

Furthermore, while an ordinary *licensee* has very properly been held to be estopped in ordinary *licensee* cases, this case is one in which the *estoppel* is based upon *more* than the fact that Hulseman and Paper Cup Corporation were *licensees*. On that ground alone, there was more than an adequate basis for applying the estoppel.

But, here, Mr. Hulseman had actually "covenanted" to defend Paper Cup Corporation and its "assignees" with respect to the title to the exclusive rights to this very invention. This is a case of estoppel by deed, as well as by conduct.

The ordinary assignment of a patent does not contain a "covenant" to *defend* the invention. That obligation is implied in the ordinary case. Here it is present in the

form of an express written agreement, *signed by Mr. Hulseman.*

Petitioner argues, on page 16 of the petition, that Mr. Hulseman should be permitted to continue his inequitable conduct because the public needs the paper cups which Mr. Hulseman is making and selling. There are others who can rightfully and lawfully supply the public with those very cups. Furthermore, Mr. Hulseman (petitioner) could supply those very cups without infringing these Smith and Bild claims. Petitioner's argument on this point is really praise for the Smith and Bild invention.

Petitioner's Authorities.

We shall now discuss some of the authorities relied upon by petitioner and shall cite one other pertinent decision.

Petitioner Relies Upon Decisions Which Were Overruled on Very Point Relied Upon by Petitioner.

Petitioner's argument under Point II, on page 17 of its petition, is wholly irrelevant in this case because it is not based upon all of the record facts.

On page 17 of its petition, petitioner cites and relies upon *Westinghouse* v. *Formica*, 288 Fed. 330, on the question of estoppel. This court took that very case, and pointed out the error of the Circuit Court of Appeals on this question of estoppel. This court held the assignor of that patent estopped to deny validity. *Westinghouse Electric & Manufacturing Company* v. *Formica Insulation Company*, 266 U. S. 342.

In that decision this Court said:

> "The analogy between estoppel in conveyances of land and estoppel in assignments of a patent right is clear. If one lawfully conveys to another a patented right to exclude the public from the making, using and vending of an invention, fair dealing should prevent him from derogating from the title he has assigned, just as it estops a grantor of a deed of land from impeaching the effect of his solemn act as against his grantee. The grantor purports to convey the right to exclude others, in the one instance, from a defined tract of land, and in the other, from a described and limited field of the useful arts."

This court then discussed the effect of the estoppel when the assignment was made prior to the issuance of the

patent. This portion of the opinion begins on page 352 of the report. In that case, the assignment had been made while the application was pending. This court held the assignor estopped to deny validity. This court said, on page 354:

> "If this two-step process was new, and the estoppel requires us to hold as against O'Conor that it was, his assignee had a right to claim the application of it as new, not only to flat articles of composition but also to non-planiform articles as in the 11th and 12th claims; for though O'Conor *had not made such a claim,* his original specification foreshadowed it as reasonable." (Emphasis ours.)

In the case at bar, the original specification foreshadowed the "continuous feed" claims as reasonable. In fact, such claims were *always* in the case, as we have pointed out above.

Petitioner states that this court did not pass upon this question in *Westinghouse* v. *Formica,* 266 U. S. 342. That statement is *wholly incorrect.* There, O'Conor had assigned his application *while it was pending* in the Patent Office. This court held that O'Conor was estopped to deny the validity of claims *which were inserted after the assignment.*

The Circuit Court of Appeals, in the case at bar, had the Supreme Court decision in *Westinghouse* v. *Formica* before it and carefully and accurately followed that decision.

No Diversity of Opinion.

There is no diversity of opinion on this question of estoppel as it is presented in the case at bar.

In *Vogt Instant Freezers* v. *New York Eskimo Pie Corp.,* 59 Fed. (2d) 99, (cited by petitioner), the *lower court* did

say that there was no estoppel, and incorrectly cited this court's decision in *Westinghouse* v. *Formica* as sustaining that position.

That District Court decision was reversed by the Circuit Court of Appeals for the Second Circuit in 69 Fed. (2d) 84. That Circuit Court of Appeals, beginning at the bottom of page 86 of the report, held that the assignor *in that case was* estopped to deny validity of the patent there in suit, and cited this same Supreme Court decision, *Westinghouse* v. *Formica,* 266 U. S. 342 as sustaining that view.

There is no diversity of opinion in the different circuits when the Circuit Courts of Appeal are in harmony, even though a *reversed* District Court opinion might be to the contrary in one of those circuits.

The Circuit Court of Appeals for the Second Circuit corrected the District Court on this question of estoppel in the Vogt case. This court corrected the Circuit Court of Appeals for the Sixth Circuit on this question of estoppel in the Westinghouse case. There is therefore unanimity of opinion in the three decisions of the Seventh Circuit (in the case at bar); the Circuit Court of Appeals for the Second Circuit (in the Vogt case); and the Supreme Court (in the Westinghouse case).

The estoppel in the case at bar is even stronger than in the Vogt case or in the Westinghouse case. Here, there is an *express* covenant, instead of an *implied* covenant, as was present in those cases.

Hulseman's Possession of Exclusive Rights Was NOT "Casual" or "Temporary."

Petitioner argues (Brief p. 19) that Hulseman's possession of title was only "casual and temporary". That

statement is incorrect. That ownership by Hulseman gave him 49% of the capital stock of Paper Cup Corporation outright, and gave his attorney 2%; it gave Mr. Hulseman complete control of the corporation; it made him a director and president of the corporation, and it made him general manager of all of its affairs.

The effect of that "ownership" was neither "casual" nor "temporary".

The decision in *Picard* v. *United Aircraft Corporation,* 128 Fed. (2d) 632, and the concurring opinion in that case by Judge Frank (cited by petitioner) do not apply to any state of facts which is present in the case at bar. We cannot find that any question of estoppel was there involved. Both the opinion of the court and the concurring opinion by Judge Frank are interesting and scholarly, but we cannot see where that case has any bearing upon the case at bar.

The erroneous policy suggested in the last paragraph on page 19 of the petition would protect an assignee, who is clearly estopped, if he merely placed a corporate cloak around his shoulders, as Hulseman did in the case at bar. Equity never has countenanced the protection of wrongdoers. There is no reason why it should do so now.

Hulseman Covenanted to Protect ASSIGNEES of Paper Cup Corporation.

We have heretofore pointed out that the true facts in this case are not as petitioner relates them. The District Court and the Circuit Court of Appeals, basing their findings upon the complete facts in the record, found that Hulseman and petitioner are merely one and the same. Petitioner is merely a cloak under which Hulseman is carrying on his inequitable business.

As we have pointed out heretofore in this brief, Hulseman "covenanted" to defend *assignees* of Paper Cup Corporation. That covenant was not limited to those who became *assignees* while Hulseman continued to be president of Paper Cup Corporation. It covers those who became *assignees*, at any time, of the exclusive rights which Hulseman had conveyed to Paper Cup Corporation for his capital stock.

Regardless of petitioner's urgings, courts of equity will not become blinded to realities. They will continue to look through the shadow and find the substance which casts the shadow.

Concurrent Decisions.

This Court has repeatedly said that findings of fact concurred in by two lower courts will be accepted by this Court unless clear error is shown. *Radio Corporation of America* v. *Radio Engineering Laboratories, Inc.*, 293, U. S. 1.

In the case at bar, the findings of fact, upon which both the District Court and the Court of Appeals based their decisions, were *concurrently found to be facts.* (See opinion of Court of Appeals, first paragraph at top of Rec. 1814, Vol. IV.) They both applied the law correctly to those facts.

The petitioner is not accepting the facts, as found by the lower courts, and then merely questioning the application of the law to those facts. The petitioner is questioning the concurrent findings of facts.

Some of the findings of fact, and particularly the finding with respect to the "continuous movement" of the web of paper through the feeding mechanism in the Smith and Bild patent, were also found to be *facts* by the Examiner in the Patent Office. He is an expert in such matters.

It is hardly reasonable to assume that the Examiner, the District Court, and the Court of Appeals could all be wrong as to the facts, and that petitioner is the *only one* who is right.

The same contentions which are made here were made by petitioner in both the District Court and in the Court of Appeals, and neither one of them agreed with petitioner.

Conclusion.

We submit that the petition for certiorari is without merit, and should be denied.

Respectfully submitted,

CHARLES W. HILLS,
Counsel for Respondent.

ALEXANDER C. MABEE,
Of Counsel.

Dated: Chicago, Illinois.
November 20, 1942.

(23)

FILED
NOV 28 1942
CHARLES ELMORE CROPLEY
CLERK

IN THE

Supreme Court of the United States

October Term, 1942

No. 505

PAPER CONTAINER MFG. COMPANY,
Petitioner,

vs.

DIXIE-VORTEX COMPANY,
Respondent.

PETITIONER'S REPLY TO RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI.

SAMUEL E. DARBY, JR.,
Counsel for Petitioner.

F. ALLAN MINNE,
Of Counsel.

IN THE

Supreme Court of the United States

October Term, 1942

No. 505

PAPER CONTAINER MFG. COMPANY,
Petitioner,

vs.

DIXIE-VORTEX COMPANY,
Respondent.

PETITIONER'S REPLY TO RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI.

Respondent's opposition to the grant of a writ of certiorari in this case is fundamentally based on the fallacious assertion that there is no public interest involved in the adjudication of patent rights in a case involving the doctrine of estoppel. Such an assertion is grossly blind to actualities as well as to the present day unanimity of judicial opinion that the public interest is involved in *every* adjudication of the validity of a patent monopoly which necessarily deprives the public of the benefits of open competition. To that extent a patent monopoly is contrary to basic public policy, and is sanctioned by the patent statute only if and when the prerequisites of that statute, both procedurally and in subject matter, have been complied with. Indeed, and as this Court stated in *Pope Manufacturing Co.* v. *Gormully*, 144 U. S. 224, 234 (see petition, p. 13), the public

interest certainly is of no lesser importance or impelling effect than the rights of the patent owner.

This Court has already recognized the public importance of the primary question here presented in a case between *licensee and licensor* by granting a writ of certiorari in *Sola Electric Company* v. *Jefferson Electric Company*, No. 45, October Term, 1942. The present case involves the applicability of the doctrine to *assignor and assignee*. Because the facts of the present case strikingly crystallize particularly obnoxious vices and abuses of the patent privilege to the detriment of the public right which are not present in the *Sola* case, it is believed that a review of the present case should be had, regardless of the disposition that is made of the *Sola* case. The legal status of a licensee is vastly different from that of an assignor, which fact unquestionably would preclude in the *Sola* case the full consideration, here sought, of the validity of the doctrine with respect to a patent *assignor* or to an assignor of an *application* for patent.

Nor can the public importance of this question be clouded by the effort made by respondent throughout its brief to convey the impression that petitioner (or, at least, the individual, Mr. Hulseman) had covenanted and warranted to defend the rights which, allegedly, were transferred by him. As we view the question here presented, that fact would be wholly immaterial, even if true, in view of the fact that the Court of Appeals did not (and could not) predicate its decision on any such ground. However, it is *not* true, and respondent's effort to create the impression that there exists in fact, or in the record, any covenant or warranty affecting the Smith and Bild patent is not only unjustified—it is unpardonable. The warrant and covenant to which respondent repetitiously refers throughout its brief, and

which is quoted in part on pages 3 and 4 thereof, has nothing whatever to do with the Smith and Bild patent—and respondent knows it. As will be observed upon reference to the agreement from which respondent has extracted an incomplete sentence (Vol. II, pp. 506-508), Mr. Hulseman transferred two things (A) a machine for making paper cups, and (B) a contract he had with the inventors, Smith and Bild, dated July 14, 1932. Those two things—the machine and the contract—constitute the "*property*" that Hulseman vouched he owned and had the power, right and lawful authority to dispose of, *and which he warranted and covenanted to defend. The contract of July 14, 1932* (Vol. II, pp. 503-506) *was entered into two and one-half years before the application for the Smith and Bild patent was filed.* That contract gave to Mr. Hulseman the exclusive right to purchase *one* machine (which at that time was in the process of construction), as well as the right to use "the methods and processes" of Smith and Bild *in that machine* or in any *subsequent* machines that he might thereafter purchase if that first machine proved satisfactory. There was no transfer of patent rights of any kind or nature whatsoever other than as might be implied from the exclusive right to *use* that machine—as distinguished from the right to *manufacture* and *sell* machines of that type.

In view of these few indisputable facts, respondent's deliberate effort to create the impression that Hulseman had or assigned *patent* rights which he warranted or covenanted to defend, is so unpardonably unjustified as to require no further comment on our part.

We also believe that at this stage of the case this Court is not materially concerned with respondent's futile effort to evade the manifest invalidity of the Smith and Bild patent because the Court of Appeals defined the invention thereof

as consisting of a feature which formed no part of the Smith and Bild invention, and was not even disclosed in the drawings or specifications, but which was injected into the *application* for patent by respondent in brazen and flagrant violation of all relevant law. We merely comment that respondent's efforts to this end consist merely of trying to induce the belief that the feature involved is the continuous movement of the paper *feed-rolls* or *web* (with which we are not concerned in any sense) rather than the movement of the *paper* (continuous, instead of intermittent) while it is having blanks cut therefrom. Obviously, claim 7 of the application and patent has nothing whatever to do with the movement of the *paper* at the position in the machine where the blank is cut therefrom; and this is fittingly exemplified by the simple fact that claim 7 was one of the claims declared upon at the trial. The District Court found and held that it was not infringed (Vol. II, p. 744), and no appeal was taken from that holding by respondent.

On page 17 of its brief respondent makes the bald italicized assertion that the District Court for the Eastern District of New York in *Vogt Instant Freezers* v. *New York Eskimo Pie Corporation* was reversed by the Court of Appeals in 69 F. (2d) 84. It is difficult for us to understand how such a misstatement of fact can be justified if deliberately made, as apparently it was. A reference to the decision of the Court of Appeals shows that the District Court was *affirmed*—not reversed.

The *affirmance* of the District Court was founded on non-infringement, the Court saying (at p. 86):

> "The patents with the claims allowed have the prima facie validity which follows from the action of the Patent Office, *and we find the decisive issues now involved may all be resolved by a decision as to in-*

> *fringement with the claims given their prima facie validity and the scope the prior art permits".**

It is true that in citing this Court's decision in *Westinghouse* v. *Formica*, 266 U. S. 342, as authority for the propriety of considering the prior art to limit the scope of the patent, the Court of Appeals stated that an assignor may not defeat the patent itself. However, that was mere *obiter dictum*, reciting, in broad language, the questionable estoppel rule as applied to the assignor of a *patent*—not an *application* for patent.

On pages 15 and 16 of respondent's brief our presentation of this Court's decision in *Westinghouse* v. *Formica*, 266 U. S. 342, is criticized. We refer to the opinion itself as justification for our interpretation. On page 342 this Court stated:

> "When the assignment is made before patent, the claims are subject to change by curtailment or enlargement by the Patent Office with the acquiescence or at the instance of the assignee, and the extent of the claims to be allowed may ultimately include more than the assignor intended to claim. This difference might justify the view that the range of relevant and competent evidence in fixing the limits of the subsequent estoppel should be more liberal than in the case of an assignment of a granted patent. *How this may be, we do not find it necessary to decide.*"

It is obvious from this language that this Court recognized the difference between a situation where a granted *patent* is assigned and where an *application* for patent is assigned. In so far as a patent is concerned this Court in that case said the assignee has available to it the entire prior art for the purpose of limiting the scope of the patent

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* Emphasis ours throughout this brief.

claims. With respect to an *application* it is our view that this Court plainly implied—without deciding—that the assignee might go very much further. We say the assignee certainly should be allowed to attack the *validity* of the patent where, as here, the assignee has altered the claimed invention in an illegal manner to create a monopoly neither invented by the patentee nor acquired by the assignee. We repeat, this Court expressly refrained from deciding that question, and it is asked to do so in the present case.

Conclusion.

We realize that this Court, nearly twenty years ago in the case of *Westinghouse* v. *Formica, supra,* recognized the applicability of the estoppel doctrine to patent cases. Since then, however, many events have occurred to bring pointedly to attention that the Courts—quite erroneously—have been ignoring the public interest in all patent controversies. Because thereof revision of thought on patent questions has recently, and with constantly increasing frequency, been necessary. Even revision of the patent laws has been deemed by many to be necessary to make them conform with the recent judicial opinions induced by belated recognition of the public right. As the Court of Appeals for the Sixth Circuit put it recently (Oct. 6, 1942):

> "The patent law is presently in a state of flux" (*United States Gypsum Co.* v. *Consolidated Expanded Metal Companies*, 55 U. S. P. Q. 247, 251).

We submit, therefore, that it certainly is timely to reconsider this doctrine and determine, in the light of the present recognition of public policy, whether it properly should exist at all, in opposition to the more impelling public interest; and, if it should exist, whether or not it

should be limited in such manner as to preclude the fraud upon the public and the unwarranted deprivation of public rights so clearly ilustrated by the facts of the present case.

We earnestly urge that the petition be granted.

Respectfully submitted,

SAMUEL E. DARBY, JR.,
Counsel for Petitioner.

F. ALLAN MINNE,
Of Counsel.

[2547]

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FILED
DEC 29 1942
CHARLES ELMORE CROPLEY
CLERK

Supreme Court of the United States

October Term, 1942

No. 505

PAPER CONTAINER MFG. COMPANY,
Petitioner,

vs.

DIXIE-VORTEX COMPANY,
Respondent.

PETITION BY PAPER CONTAINER MFG. COMPANY FOR REHEARING ON ITS PETITION FOR WRIT OF CERTIORARI.

SAMUEL E. DARBY, JR.,
405 Lexington Avenue,
New York, N. Y.,
Counsel for Petitioner.

F. ALLAN MINNE,
Of Counsel.

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Reconsideration of the petition in this case for a writ of certiorari (denied December 7th) is respectfully and earnestly requested. It is believed that the public importance of the questions presented impells such reconsideration and the grant of the writ.

As early as 1880, this Court, in *Densmore* v. *Scoffield*, 102 U. S. 375, judicially recognized the public interest in the adjudication of the validity of a patent monopoly, saying (at p. 378):

> "Patentees as a class are public benefactors, and their rights should be protected. But the public has rights also. The rights of both should be upheld and enforced by an equally firm hand, wherever they come under judicial consideration."

Again in 1892, in *Pope Manufacturing Co.* v. *Gormully*, 144 U. S. 224, this Court said:

> "It is as important to the public that competition should not be repressed by worthless patents, as that the patentee of a really valuable invention should be protected in his monopoly; * * *"

Under the guidance afforded by such repeated recognition of the public right the inferior courts in subsequent years, and with constantly increasing frequency, have recognized that the public interest in the adjudication of the validity of a patent imposes a judicial duty to *determine* validity thereof on the evidence presented even though no issue on validity has been raised in the case. Thus, in 1922, the Court of Appeals for the Third Circuit in *Standard Water Systems Company, Inc.* v. *Griscom Russell Co.*, 278 F. 703, said, at page 705:

> "The public is interested in every adjudication with respect to the validity of a patent, and it is the duty of courts having jurisdiction of patent causes to have regard, at all times, of the rights of the public, so that such rights may be rather enlarged than diminished by judicial determination".

In 1936, the Court of Appeals for the First Circuit followed the same instruction in *Premier Machine Co., Inc.* v. *Freeman*, 84 F. (2d) 425, and stated (at p. 428):

> "That the public is interested in every patent case is apparent from reading the opinion in Hill v. Wooster, 132 U. S. 693 (694). See, too, Pope Mfg. Co. v. Gormully, 144 U. S. 224".

More recently, in October 1942, the Court of Appeals for the Third Circuit, in *Fowler et al.* v. *Honorbilt Products Inc.*, 55 U. S. P. Q. 217, said (at p. 220):

> "A proper regard for the public interest present in a patent suit enjoins upon courts that they not extend the privilege of patent monopoly where invention does not obtain".

Again, on November 20, 1942, in *Cridlebaugh* v. *Rudolph*, that same Court said, 55 U. S. P. Q. 386 (at p. 390):

> "But the fact that the defending party to an infringement suit seeks to obviate the question of patentability of the disclosure involved does not exclude that issue. It inheres none the less in the charge of infringement. In such instance the parties are powerless to foreclosure the Court from determining whether the patent does in fact cover invention. The duty to protect the public from the imposition of an unwarranted monopoly requires no less."

Thus, throughout the years the public interest in the adjudication of the validity of a patent has been accorded a weight at least as great as that of the patentee or the patent owner, and has required the judicial *determination* of the validity of a patent as a condition to its *adjudication* of validity.*

Additionally, in its most recent decision in *Sola Electric Company* v. *Jefferson Electric Company*, decided December 7, 1942, this Court has announced the necessity for the validity of a patent as a condition to legalizing a price fixing license agreement, and has accorded a licensee under a patent the privilege of attacking the validity of the licensed patent for the purpose of establishing the illegality of the

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* Cf. *Exhibit Supply Co.* v. *Ace Patents Corp.*, 315 U. S. 126. In that case the minority opinion of this Court expressly adheres to this fundamental principle, and the majority opinion in no sense constitutes an exception. In the exercise of its discretion as to whether or not a writ of certiorari will issue, this Court can prescribe and limit the specific issues it will review.

price fixing provision of the license agreement. Here, again, the public interest was the dominating and controlling factor, which was regarded by this Court as of more impelling effect than a long recognized but improperly applied doctrine of estoppel which had been construed by the lower Court to prevent judicial determination of the validity of the patent at the request of a licensee thereunder.

It is believed that the fundamental principle underlying all of these cases is that *nothing* properly should preclude a Trial Court from passing on the validity of a patent sought to be enforced or should relieve the Court of its *duty* to do so.

However, in the case at bar, the Court of Appeals has sustained as valid a patent, which thus dominates an important industry, because of its belief that it was without power or authority to consider evidence before it which established the invalidity of the patent beyond question. This belief was assertedly induced because the alleged infringer was an assignor of the rights represented by the patent grant. In other words, the "conduct" of the alleged infringer has been given an importance and effect which has outweighed and made subservient the ever present public interest. Thus, the decision of the Court below is in direct and irreconcilable conflict with the decision of the Circuit Court of Appeals for the Sixth Circuit in *Kellogg Switchboard & Supply Company* v. *Michigan Bell Telephone Co.*, 99 F. (2d) 203, which said (at p. 205):

> "The public is always a third party to an infringement suit, and its rights may not be waived by the conduct of alleged infringers, however repugnant to their later contentions."

In consequence, the denial by this Court of a review in the present case leaves the situation in a condition where, despite this Court's consistent direction that the public is interested and its rights should be safeguarded in the adjudication of the validity of every patent, the failure of the Court of Appeals below to follow this direction has received the sanction of this Court that is incident to its refusal to review and correct this erroneous neglect of the public interest.

The consequence is that a way has been left open—indeed, a direction is implied—whereby it will be possible to obtain judicial adjudications of validity for manifestly invalid patents to the detriment of the public right. Such adjudications, once obtained, may then form the basis upon which to build price fixing agreements impliedly sanctioned by this Court in its recent decision in the *Sola* case. If the principal factors of any industry, by a "Round Robbin" passage of title, hold even temporary title to the patent grant, and thereby, under the decision of the Court of Appeals below, become estopped to question the validity thereof, an effective means is thus available to dominate any industry, and subject the public to the evils of price fixing by means of a worthless patent, without opportunity ever presenting itself to question the validity of the patent.

These possibilities present a review of the present case by this Court as of equal importance to the administration of the patent and anti-trust laws as expressly occasioned the grant of the writ of certiorari in the *Sola* case.

In view of all of the foregoing considerations, and because of the public importance of the questions involved, a reconsideration of the petition for writ of certiorari in this

case, and the grant of the writ, are most earnestly and respectfully urged.

Respectfully submitted,

SAMUEL E. DARBY, JR.,
Counsel for Petitioner.

F. ALLAN MINNE,
Of Counsel.

Certificate of Counsel.

I hereby certify that this petition for rehearing is presented in good faith and not for delay.

SAMUEL E. DARBY, JR.,
Counsel for Petitioner.

Lawyers Press, Inc., 165 William St., N. Y. C.; 'Phone: BEekman 3-2300